The Charles Schwab Tax Cut
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The Bush administration never met a domestic problem that tax cuts couldn't cure, and today in Chicago the president is planning to call for more of the same. The centerpiece of Mr. Bush's new economic plan is to eliminate the tax on dividends that will cost the Treasury about $300 billion over the next decade. In a theoretical world, ending the dividend tax might make sense. Unfortunately we live in the real one, where it's the wrong move at the wrong time for the benefit of the wrong people.

Ending the dividend tax will not provide the economy with a short-term stimulus — the ostensible goal of the plan. Investors won't be seeing their savings until 2004. While nobody can predict what the economy will look like then, we'd be willing to lay odds that there will still be a large and growing deficit, made continually worse by the administration's insistence on reducing revenues. Mr. Bush has made it obvious that he expects to go to war against Iraq this year. The nation learned in the past that it cannot afford the luxury of guns and butter. The same goes for guns and tax cuts, particularly when they're directed at the most well-heeled Americans.

Eliminating the dividend tax, admittedly, has more to commend it than does blindly cutting income taxes on the wealthiest Americans — something the president is also recommending in the form of an acceleration of the cuts Congress passed in 2001. As became all too apparent in the financial bubble of the late 1990's, the tax code currently contains some perverse incentives for companies to become overly indebted and to manipulate their short-term stock price, instead of paying dividends as a form of prudent profit sharing. However, we find it hard to believe that that's the problem this administration had in mind, given the reluctance with which it pursued other reforms in the stock market.

If Mr. Bush's mind had been on the long-term economy rather than on politics, he might have listened to the advice of his former Treasury secretary, Paul O'Neill, and dropped the idea of further tax cuts altogether. But Mr. O'Neill is a former Treasury secretary for a reason. The president cannot afford to look indifferent to the problems of average Americans in a sluggish economy. These days average Americans own stock — although most of it is in tax-sheltered retirement funds.

The dividend tax might seem like a more inclusive target than the estate tax. But it is a cynical and dangerous proposal. All around the country, states that cut taxes during the boom years are reeling from the impact on their budgets, and finding it impossible to keep promises to improve education and health care. The president has wisely proposed giving them some aid, but with his deficit-ballooning tax-cut proposals he is giving them a very bad example at the same time.

Ending the dividend tax is something almost nobody has been crying out for — except the mega-broker Charles Schwab, who made a pitch for it at the economic summit meeting at Waco last summer. The president happened to drop in on the panel on which Mr. Schwab was speaking and pronounced it a good idea. It may turn out to have been one of the most expensive courtesy calls in modern history.

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